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CHILTON'S

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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE DECEMBER 1986

Section
HOUSING REVIEW

PROFILES OF WAREHOUSING QUALITY

THE COMPUTER CHALLENGE

GETTING A GLOBAL GRIP ON LOGISTICS

MID-SIZED RAILROADS: CAUGHT IN THE MIDDLE?

VOL. 85, NO. 12

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DECEMBER 1986

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DISTRIBUTION, ISSN 0273-6721, owned by Chilton Co., is published monthly at Chilton Way, Radnor, PA 19089, (215) 964-4000. Chilton Co. is a division of American Broadcasting Companies, Inc., New York, N.Y. Second Class Postage Paid at Wayne, PA 19087 and additional mailing offices. © CHILTON COMPANY 1986. Subscription rate: U.S. and possessions, $40 per year. Canadian, $50. Foreign $70 Single issue $2.00 except Distribution Guide Issue—$40 per copy. Address editorial correspondence to Editor-in Chief, DISTRIBUTION, Chilton Co., Radnor, PA 19089. Postmaster: Send form 3579 to DISTRIBUTION, P.O. Box 3019, Wheaton, IL 60189. Permission to photocopy for internal use or the internal use of specific clients is granted by Chilton Company for libraries and other users registered with the Copyright Clearance Center (CCC), provided that the base fee of $1.00 per copy othe article, plus 25¢ per page is paid directly to the CCC, 21 Congress Street, Salem, MA 01970. (0273-6721/86 $1.00 + 25¢.)

BORDER PATROL

Fluctuations in the value of the dollar, changes in the regulatory climate and modal service capabilities—all will influence U.S./Canadian transborder manufacturing and distribution for the next four to five years. That's what you told us in response to our October Dialogue question.

"We will develop a distribution center, analyze railcar capabilities and decrease duty drawback, with the use of the distribution center for return material."—**Stephen Flewelling, operations manager, Wool Rest, Wilmington, Mass.**

"We will increase our sales effort in Canada. Every year our transborder shipping increases."—**G. Belcher, general traffic manager, VAW America, Inc., Ellenville, N.Y.**

"We plan to eliminate our distributor relationship and service our customers directly."—**John Skurulis, traffic manager, Artos Eng. Co., New Berlin, Wis.**

"We have begun operations in a new manufacturing plant in the Toronto area. We will be looking for new market areas."—**Carl McCoy, traffic manager, Pretty Products, Coshocton, Oh.**

continued

I expect to arrange more U.S./Canadian transborder transportation in '87 than in '86	79%
less transborder transportation	7%
about the same amount of transportation	14%
Freight rates for transborder traffic will increase following Canadian transportation reform	21%
freight rates will decrease	43%
freight rates will remain the same	36%
I expect to use more carriers following Canadian reform	36%
fewer carriers	14%
about the same number of carriers	50%
Exchange rate fluctuation during the next two years will prove advantageous to Canadian carriers	54%
Canadian locations will become more of an option when looking for manufacturing sites, etc.	29%
For transborder movements, I prefer single mode carriers with lines in both countries	50%

QUESTION OF THE MONTH

TRUCKLOAD TRADEOFFS

"Common wisdom" has long held that the "big" money in for-hire trucking is in LTL service. Even with the expense of labor and terminals, the yield for efficient LTL lines is three times greater than that of their truckload counterparts.

But recently, the bottom line has been as bright for some TL carriers as it has for the big LTL names. And there's been a flurry of start-ups and expansions in the TL sector, backed by investment capital and marketing support from well-run companies that aren't prone to speculative investments.

We're talking to carriers to find out why TL has become attractive. Now we want to hear from you—the shippers who are expected to reconfigure their freight accordingly.

Are carriers correct in assuming you can plan and schedule effectively enough to take advantage of TL rates and still meet just-in-time service objectives? Is LTL discounting still deep and attractive enough to make it possible for you to get "truckload" rates without having to spend time consolidating full trailer quantities?

Please provide us with a "truckload" of input on these questions by filling out the card below.

DIALOGUE

December 1986

• Of the for-hire trucking service my company pays for, _____ percent is LTL and _____ percent is truckload (on a weight basis).

• My company tends to use for-hire truckload service most for (check ONE only): _____inbound shipments from outside vendors; _____shipments between two company facilities; _____outbound shipments to distributors or public warehouses; _____outbound shipments direct to customers.

• When I ship a "truckload," I want it to be in a (check ONE only): _____28-foot "pup" trailer; _____medium-duty (Class 6 or 7) truck; _____40-foot trailer; _____45-foot trailer; _____48-foot trailer; _____53-foot trailer; _____other (describe: ____)

• When I ship a "truckload," the carrier is most often a (check ONE only): _____independent owner/operator; _____private carrier (either my own company's or another's); _____specialized or regional for-hire truckload carrier; _____national, general-commodity truckload carrier: _____other (describe: ____)

• Truckload shipping for me generally _____does/_____does not require dropped trailers at my facilities. If it does, the trailers are, on average, dropped at the facility _____ hours prior to loading and picked up _____ hours after loading.

(Please answer both parts)
The greatest attraction of for-hire truckload service for me today is:
The greatest deterrent to my using for-hire truckload service is:

NAME (print) TITLE

COMPANY PHONE

ADDRESS

CITY STATE ZIP

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that have caught the ears of *DISTRIBUTION* editors:)

"You shouldn't expect shippers to mount any great groundswell of support for domestic containerization. Advanced hardware has meaning for the shipper only if carriers and third parties weave it into a business system which produces a superior service at a lower cost. Otherwise, all you have is an interesting engineering exercise."—**Lester K. Kloss, vice president, A.T. Kearney, Chicago.**

•

"Perhaps steamship operators have witnessed the most controversial technological advancement in transportation during the last decade: the jumbo ship. (This) technology was advanced to increase productivity (that means revenue) for all carriers. Increased productivity would create cost savings for the carrier and presto—instant profit. That was the theory. But theory sometimes tangles with reality, and reality usually wins. Improved productivity could only yield cost savings to the carrier having high utilization factors. And overtonnaging has militated against satisfactory utilization levels for us all."—**Thomas A. Yost, chief operating officer, Trans Freight Lines, Wayne, N.J.**

"We expect to increase exports and do little importing."—**Scott G. Emslie, president, Sunshine Glassworks Ltd., Buffalo.**

"We are looking for a lower U.S. dollar and increased transportation access—therefore greater exports."—**John C. Oshel, purchasing, Fibron Products, Inc., Buffalo.**

"We will concentrate on improving delivery times to our customers and reducing claims on both sides. We intend to establish and complete a Canadian distribution system."—**John Siekis, traffic manager, Shaw Industries, Hyde Park, Mass.**

"As an import/export company, more sales and warehousing will be needed for our expansion program, both in Canada and in U.S bordering states. Our sites will be selected after January 1, 1987.—**Guy Russo, executive vice president, Nippon Industries, New York.**

KEY BUSINESS INDICATORS

	latest month		Previous month	same period 1985	low '61-'85	high '61-'85
Inventories (billions)*	June	278.3	278.4	285.7	53.4 (5/61)	289.3 (11/85)
Shipments (billions)*	June	191.5	192.1	198.3	28.7 (1/61)	202.1 (12/85)
Exports, Reexports (millions)	June	19,070	18,270	18,103	987 (1/63)	21,434 (3/81)
General Imports (millions)	June	33,240	31,395	28,603	N/A	N/A

**Figures are seasonally adjusted*
N/A = Not Available

Source: Bureau of Economic Ananysis, Bureau of Census

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REFORM SHOULDN'T BE TOO TAXING

BY ROBERT J. BOWMAN (415) 752-4884

Skyrocketing insurance rates, expensive safety programs, spiraling costs, deregulation—you say you've got enough headaches? Get ready for one more: tax reform.

Few companies will emerge unscathed by the new tax law, and those with their own trucks are no exception. For fleet managers and their bosses, it's yet another factor in their deliberations over whether to maintain a private fleet. And while the law isn't likely to sway the decision in either direction, it's too important to be taken lightly.

For starters, there's the repeal of your investment tax credit (ITC) as of December 31, 1985. Stan Burwell, operations manager of Ace Tank and Equipment Co., says it's "a 10 percent benefit I will never have again." With this popular provision gone, private fleet operators may become gun-shy about making major capital investments, turning to leasing instead. One bright spot—you can keep your tractors on an accelerated, three-year depreciation schedule.

Assessing the Alternatives

They used to haul you off to jail for keeping two sets of books. Now it's the law. Beginning January 1, 1987, companies will be required to calculate a so-called alternative minimum tax in addition to the old method, says Winn Halverhaut of Arthur Andersen & Co.

More than a dozen items that used to merit preferential tax treatment under the standard calculation—such as tax depreciation in excess of financial statement depreciation—will be added right back into your tax base. The alternative tax rate is 20 percent, meaning you are assessed a smaller rate on a larger taxable base. Of the two rates, you pay the higher.

Private fleet managers working for manufacturers, wholesalers and retailers will face heavier administrative burdens. Fewer expenditures related to inventories will be fully deductible, and managers will have to keep a whole new set of records to show how their fleets are being used. As Halverhaut puts it, "It's going to require an awful lot of cooperation and communication between the corporate headquarters and the accounting department, tax department, systems people and fleet operator."

For some the law may hit even closer to home—in their pocketbooks. Halverhaut says managers whose pay is affected by after-tax performance "may find a little surprise when their bonus isn't as high because of the way the alternative tax applies to them."

Which companies will pay a higher alternative minimum tax? There is no pat answer, says Roger Marticke, consultant with Temple, Barker & Sloane. "You can do a fairly quick present value analysis to see whether you're better off under the new code, but without knowing how a company has treated its own investment decisions, it's hard to give a general rule."

Marticke says most companies with plans to acquire new trucks have already done so in anticipation of the retroactive loss of the ITC. "In a certain way," he adds, "the die has already been cast."

Lessors Should Benefit

Ray Rehor, vice president-taxes with Leaseway Transportation Corp., says tax reform could alter a company's decision on whether to own or lease equipment. Leasing charges remain fully deductible, he points out, and do not have to be figured into the alternative minimum tax. Combined with the loss of the ITC, that could drive companies in the direction of leasing.

Tax code or no tax code, Burlington Industries is sticking to ownership, says Ben Tyler, president of the $3 billion textile manufacturer's transportation division. In fact, the company just purchased 99 new tractors and 60 trailers.

"The operational aggravations" of leasing convinced Burlington to hold on to its 330 tractors and 1,300 trailers—despite company estimates of a slight annual savings if the equipment were acquired under a finance lease.

Tyler says it's too early to assess the impact of tax reform, although "I'm sure all that was factored in

PRIVATE FLEET COSTS—TRACTOR/TRAILER EQUIPMENT

Type of Equipment	Cost per Mile							
	General and Administrative		Drivers		Equipment		Total	
	1984	1985	1984	1985	1984	1985	1984	1985
Owned	$.10	$.10	$.61	$.64	$.65	$.68	$1.35	$1.42
Leased	.07	.07	.54	.55	.69	.69	1.28	1.31
Mixed	.11	.09	.67	.65	.74	.68	1.52	1.43

Source: A.T. Kearney/Private Truck Council of America

Three reasons fleets will lease more—the new tax law's elimination of the investment tax credit, lease payments are still fully deductible and, as you can see, the rising cost of owning equipment.

when the decision to own was made."

"There's no question that tax reform is going to cause a re-evaluation of the way we acquire equipment," says Stan Hirshman, operations manager of fleet transport for Kraft, Inc. The way it is now, Kraft leases 105 power units and 270 trailers from another subsidiary of the parent company. Eventually, "we may end up buying them outright," Hirshman reports.

A major East Coast-based food products company with full-service maintenance leases on its trucks and trailers is considering a switch to finance leasing. "I have to go out and get quotes on new equipment," says the company's manager of private carriage. "But it looks like this corporation is leaning toward using somebody else's money, instead of buying it outright."

Not everyone believes that tax reform is a major issue for private fleet operators. "Right now I don't see anything that's going to have much of an impact," says Burwell of Ace Tank & Equipment. To him, insurance costs and the company's safety program are much bigger concerns.

Ace, which maintains a small fleet of five tractor-trailers, didn't rush out and buy trucks in anticipation of losing the ITC. "We have some equipment that I'd love to replace," Burwell acknowledges, "but there was manufacturing equipment that needed help worse. So calmer heads prevailed."

If anything, tax reform compels Burwell "to make equipment last a little longer. In effect, loss of the ITC raises the price of a truck."

Dave Berry is president of the trucking subsidiaries of Kaibab Transportation Industries, a Phoenix-based lumber products company with 150 tractor-trailer combinations. He says accounting managers, not fleet managers, will have to cope with the new administrative burdens of tax reform.

Berry isn't so certain about the effects of other parts of the law. He suspects that lease rates will rise, and that employee benefits will decrease even as their cost goes up.

Confidence With A Caveat

Fleet managers agree on at least one aspect of tax reform: taken by itself, it won't drive anyone out of the business of private carriage.

"So far it hasn't been a big enough issue to make me sway my thinking about the private fleet," Burwell says. And Hirshman insists that "it's not going to be a question of whether the fleet continues."

Still, waiting too long to ask the important questions could be hazardous. As Winn Halverhaut says, "Ignorance may be bliss for a little while. But you hear more from people when they get bit than when they get blessed. The important thing is not to wait until 1987 to start looking at the impact." □

PRIVATE THOUGHTS

Private fleet driver **Leon Livingston** *is "On the Road to Gold" after winning the grand prize in a contest of the same name—he'll drive away in a brand new custom spec'd* **Freightliner** *truck valued at $100,000. Livingston, a driver for C.C. Jones Produce Co. of North Little Rock, Ark., won a drawing in which 300,000 truckers participated. The contest was sponsored by Freightliner and Caterpillar Engine among others.*

•

A comprehensive guide to rail fleet management has been compiled by the **National Industrial Transportation League**. *The* **Rail User's Manual** *is available for $50 for league members, $60 for non-league members. For more information, contact NITL at 1090 Vermont Avenue, NW, Suite 410, Washington, D.C. 20005 or call (202) 842-3870.*

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The results of the **Private Truck Council of America**'s *first annual membership vehicle census are in. The report is available to PTCA members at $250 and $350 to non-members. Contact the PTCA at 2022 P Street, NW, Washington, D.C. 20036 or call (202) 785-4900.*

•

Fleet managers who operate **Mercedes-Benz** *trucks have a new tool to help them get the most from their vehicles. Mercedes has placed into service two* **Service Support Vehicles (SSV)**, *each equipped with advanced tooling specifically designed for Mercedes-Benz truck maintenance and repair.*

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